



# Interim Report

2003/04 Financial Year

1st Half Year

1 March to 31 August 2003



SÜDZUCKER



## Dear shareholders,

This interim report provides information on the development of business in the first six months of the current financial year 2003/04 (March to August 2003).

Very important for the strategic alignment of our core business is the progress made in the public political discussion on the type and manner of the continuation of the European sugar market regulation when the current directive runs out in June 2006.

As expected, the EU Commission presented an "Options Paper" for a continuation of the sugar market regulations after 2006 on 23 September 2003, in order to initiate the public opinion-forming process. In the opinion of the Commission, the paper presents the complete range of theoretical options and covers regulation possibilities from a retention of the existing market regulations right up to complete liberalisation. The presentation of a Commission proposal to the Council of Ministers is not to be anticipated before the middle of next year. The result of the political decision-making process we expect is a continuation of the existing system with some modifications, in order to be in a position to react flexibly both to WTO requirements and to the obligations to the least developed countries (LDC) from the "everything-but-arms" initiative. We are involved in an open and intensive dialogue with all those involved. It is important that – according to the Commission proposal – for all options to change the market regulations changes would become fully effective only after a transitional period has elapsed, i.e. in all probability after 2010. Südzucker will use this period to take the necessary measures for adjustment required.

## Development of sales

In the first six months of the 2003/04 financial year, Group sales were slightly up year-on-year at € 2,239 million (PY: € 2,174 million).

In the Sugar segment, sales were € 1,655 million (PY: € 1,664 million). The reason for the slight decline is the continuing low level of sales at our Eastern European companies as a result of radical market changes in the run up to the EU accession on 1 May 2004. This effect was softened by the first full consolidation of the Silesian SSC-Group in the second quarter. Moreover, the increased C-sugar export volumes from the 2002 crop season, despite an unfavourable development of the world sugar price and the US dollar, resulted in an increase in sales.

In the Specialities segment, sales continued to rise, by € 74 million to € 584 million (PY: € 509 million). This increase of 14.6 % against the comparable figure of the previous year was characterised particularly by the ongoing and strong growth in functional food and Freiberger frozen food. Further reasons for the sales upturn are the shift of the financial year from the calendar year to the Südzucker Group financial year at Freiberger and the initial consolidation of the new acquisition of AGRANA in the Fruit area.

## **Operating result**

In the first half year, the consolidated operating result at € 232 million (PY: € 235 million) was down slightly.

In the Sugar segment, the first half-year operating result as already in the first quarter was down on that of the previous year at € 167 million (€ 182 million). The prices on the East European markets in the transition year before the changes in the EU remain under pressure. The weakness of the US dollar, combined with the low sugar market prices also negatively impacted our sugar export business. It was not possible to compensate this with the increased export volumes as a result of higher 2002 crop season and the realisation of synergy effects in the Group.

In the Specialities segment there was again an increase in the operating result to € 65 million (PY: € 53 million), carried primarily by unabated growth in Functional Food and the good development at Freiberger. Two months longer consolidation of Freiberger also positively impacted the result.

## Outlook

For the operating result of the Südzucker Group we continue to expect positive effects in the 2003/04 financial year from the high 2002 crop season and the realisation of further synergy effects in the Südzucker Group. In addition, the acquisition of the 67,000 t maximum quota of Béghin Say will already positively impact the 2003/04 financial year. The upward earnings trend in the Specialities segment is continuing, carried by the excellent development at Freiburger and higher sales volumes in Functional Food. On the negative side, the transitional year of the Eastern European acceding countries will continue to negatively impact earnings for the whole year. The decline of the world sugar market price, compounded by the weak US dollar, will also negatively affect the result. The long drought period negatively impacts the harvest expectations for 2003, especially in Germany.

Overall we anticipate that it will not be possible to entirely compensate these negative factors with the positive developments, so that the excellent operating result of the 2002/03 financial year will not be reached in the 2003/04 transitional year. However, from today's perspective, this operating result decline will be offset by a considerable improvement in the restructuring result. In conjunction with expected lower goodwill writedowns, this will result in a further increase in net income for the year, despite the fact that the tax rate will move back to normal levels due to the discontinuation of favourable non-recurring effects.

Yours sincerely  
Südzucker Aktiengesellschaft  
Mannheim/Ochsenfurt  
Executive board

## **Assets and liabilities, financial positions and results of operations**

We prepared the interim financial statements of the Südzucker Group in line with the rules of interim reporting according to IAS 34. The accounting and valuation methods used in preparing the Group financial statements as of 28 February 2003 are the same as used in the interim financial statements. Income taxes were calculated on the basis of the income tax rate applicable for the whole year in the respective country for the individual companies. Sugar is produced primarily in the months October to December. For this reason, the depreciation on the seasonally used facilities occur primarily in the 3rd quarter, with depreciation in the first six months relating to equipment which is used for the whole year and which is not used in sugar production. The maintenance costs incurred in the first half year for the company's 2003 season are deferred within the years and are posted under other assets.

With the consolidation of the Silesian sugar factories, the scope of consolidation has increased against the previous year by 16 companies and with the Vallø Saft companies by two companies.

## GROUP BALANCE SHEET

€ million	August 31, 2003	February 28, 2003
<b>Assets</b>		
Intangible assets	1,391.4	1,271.4
Tangible assets	1,703.4	1,607.4
Financial assets	359.3	357.9
<b>Non-current assets</b>	<b>3,454.1</b>	<b>3,236.7</b>
Inventories	617.5	1,557.6
Receivables and other assets	871.7	603.8
Securities and cash	396.5	427.5
<b>Current assets</b>	<b>1,885.7</b>	<b>2,588.9</b>
<b>Total assets</b>	<b>5,339.8</b>	<b>5,825.7</b>
<b>Liabilities</b>		
Subscribed capital of Südzucker AG	174.8	174.8
Capital reserves of Südzucker AG	938.3	938.3
Revenues reserves	739.2	712.1
	<b>1,852.3</b>	<b>1,825.2</b>
Minorities interests	382.9	395.8
<b>Shareholders' equity</b>	<b>2,235.2</b>	<b>2,221.0</b>
Provision for pensions	372.3	369.1
Other accrued expenses	885.1	949.7
Financial liabilities	1,223.0	1,435.7
Other liabilities	624.2	850.2
<b>Total liabilities and shareholders' equity</b>	<b>5,339.8</b>	<b>5,825.7</b>

As of 31 August 2003, the balance sheet total of Südzucker Group was € 485.9 million lower than on 28 February 2003. The chief reason for this is the sale of the sugar inventory. The consolidation of the Silesian sugar factories and Vallø Saft and the addition of the sugar quota acquired from Béghin Say resulted in a € 217.4 million increase in non-current assets. The equity ratio increased to 41.9 % after 38.1 % on 28 February 2003. As of 31 August 2003, net indebtedness of the Südzucker Group was € 826.5 million after € 1,008.2 million on 28 February 2003.

## GROUP STATEMENT OF INCOME

€ million	2nd quarter*		1st half year**	
	2003/04	2002/03	2003/04	2002/03
<b>Sales</b>	<b>1,114.3</b>	<b>1,016.2</b>	<b>2,238.9</b>	<b>2,174.0</b>
<b>Operating profit</b>	<b>118.4</b>	<b>121.3</b>	<b>232.4</b>	<b>235.0</b>
Restructuring costs and other items	13.9	(5.8)	9.8	(0.9)
Amortisation of goodwill	(17.6)	(17.0)	(35.0)	(33.7)
<b>Income from ordinary business activities</b>	<b>114.7</b>	<b>98.5</b>	<b>207.2</b>	<b>200.4</b>
Financial expense, net	(8.2)	(19.6)	(29.6)	(27.0)
<b>Earnings before income taxes</b>	<b>106.5</b>	<b>78.9</b>	<b>177.6</b>	<b>173.4</b>
Taxes on income	(30.6)	(11.6)	(45.9)	(36.7)
<b>Net Group earnings for the period</b>	<b>75.9</b>	<b>67.3</b>	<b>131.7</b>	<b>136.7</b>
Minorities	(16.0)	(14.1)	(28.0)	(30.6)
<b>Net Group earnings for the period after minorities</b>	<b>59.9</b>	<b>53.2</b>	<b>103.7</b>	<b>106.1</b>
<b>Earnings per share (€)</b>	<b>0.35</b>	<b>0.32</b>	<b>0.60</b>	<b>0.63</b>

The positive result from restructuring and other items of € 9.8 million in the first half year 2003/04 resulted from the Fresenius share moving higher and changes in value of interest rate derivatives. The net financial result contains a participation result of € 12.8 million, primarily from the participation at Ebro Puleva included at equity and the interest result of (€ 45.3 million).

The earnings per share calculation (IAS 33) in the 2003/04 financial year were based on 171,865,546 shares. In line with Article 160 Par. 1 of the German Stock Corporation Act, the number of shares has been reduced by 2,922,400.

\* 1 June to 31 August

\*\* 1 March to 31 August

## STATEMENT OF CASH FLOWS

€ million	1st half year**	
	2003/04	2002/03
<b>Gross cash flow</b>	<b>213.2</b>	<b>233.9</b>
Change in net current assets	359.2	456.8
<b>Net cash flow from operating activities</b>	<b>572.4</b>	<b>690.7</b>
Cash flow from investing activities	(230.7)	(116.3)
Cash flow from financing activities	(372.7)	(443.3)
<b>Change in cash and cash equivalents</b>	<b>(31.0)</b>	<b>131.1</b>
Cash and cash equivalents at the beginning of the period	427.5	428.9
Cash and cash equivalents at the end of the period	396.5	560.0

The cash outflows from investment activities of € 230.7 million relate primarily to investments in tangible assets of € 168.3 million (including the sugar quota of Béghin Say acquired by SLS) and investments in financial assets of € 97.4 million, predominantly the acquisition of the Silesian sugar factories and Vallø Saft.

## EQUITY SCHEDULE

including minority interests € million	Group share	Minority interests	Total
<b>Balance at 1 March 2003</b>	<b>1,825.2</b>	<b>395.8</b>	<b>2,221.0</b>
Profit after tax	103.7	28.0	131.7
Dividends	(87.4)	(14.5)	(101.9)
Other changes	10.8	(26.4)	(15.6)
<b>Balance at 31 August 2003</b>	<b>1,852.3</b>	<b>382.9</b>	<b>2,235.2</b>
<b>Balance at 1 March 2002</b>	<b>1,642.5</b>	<b>367.4</b>	<b>2,009.9</b>
Profit after tax	106.1	30.6	136.7
Dividends	(81.4)	(11.1)	(92.5)
Other changes	3.6	(17.0)	(13.4)
<b>Balance at 31 August 2002</b>	<b>1,670.8</b>	<b>369.9</b>	<b>2,040.7</b>

The dividend of € 0.50/share resolved at the Annual General Meeting on 31 July 2003 was paid out on 1 August 2003. This distribution resulted in shareholders' equity declining by € 87.4 million.

\*\* 1 March to 31 August

## SEGMENT REPORTING

€ million	2nd quarter*		1st half year**	
	2003/04	2002/03	2003/04	2002/03
<b>Sales</b>	<b>1,114.3</b>	<b>1,016.2</b>	<b>2,238.9</b>	<b>2,174.0</b>
Sugar	844.5	775.7	1,655.1	1,664.6
Specialities	269.8	240.5	583.8	509.4
<b>Operating profit</b>	<b>118.4</b>	<b>121.3</b>	<b>232.4</b>	<b>235.0</b>
Sugar	92.2	97.1	167.5	182.3
Specialities	26.2	24.2	64.9	52.7
<b>Operating margin</b>	<b>10.6 %</b>	<b>11.9 %</b>	<b>10.4 %</b>	<b>10.8 %</b>
Sugar	10.9 %	12.5 %	10.1 %	11.0 %
Specialities	9.7 %	10.1 %	11.1 %	10.3 %
<b>Capital expenditure</b>	<b>67.5</b>	<b>53.9</b>	<b>168.3</b>	<b>92.4</b>
Sugar	39.9	35.7	129.2	59.7
Specialities	27.6	18.2	39.1	32.7
<b>Average number of employees</b>			<b>16,250</b>	<b>12,968</b>
Sugar			12,770	9,795
Specialities			3,480	3,173

### Investments

Investments in tangible assets in the first half of 2003/04 totalled € 168.3 (PY: € 92.4 million). The increased investments in the Sugar segment resulted largely from the SLS acquisition of Béghin Say's sugar quota of 67,000 t.

### Employees

In the first half year 2003/04, the average number of employees increased year-on-year by 3,282 to 16,250. This is predominantly due to the consolidation of the Silesian sugar factories and Vallø Saft.

\* 1 June to 31 August

\*\* 1 March to 31 August

## Changes in the Supervisory and Executive board

With the end of the Annual General Meeting on 31 July 2003, Dr. Ulrich Weiss, Kronberg, retired from the Supervisory Board. In his place Mr Erwin Hameseder, Vienna, was elected to the Supervisory Board. Dr. Weiss had been a member of the Supervisory Board since October 1985. Until 1987 he was Chairman of the Supervisory Board, since then Vice Chairman of the Supervisory Board. Dr. Weiss was a member of the Presidential Committee of the Supervisory Board - and the Mediation Committee and was Chairman of the Social Committee. Mr Hameseder took a law degree at Vienna University. He is the chairman of Raiffeisen-Holding Niederösterreich-Wien.

As of 1 September 2003, Prof. Markwart Kunz was appointed as a member of the Executive board. He succeeds Dr. Klaus Korn, who is retiring. On the Südzucker AG Mannheim/Ochsenfurt, Mannheim Executive board Prof. Kunz is responsible for Production/Engineering, Special products, R & D as well as purchasing for capital goods and maintenance materials. He has been an employee of the company since 1978, with responsibility for Research/Development/Services since 1992. Since 1997 he has also been responsible for Sugar/Special Products.

## Important dates

### Report 3rd quarter 2003/04

15 January 2004

### Accounting press conference and analysts' conference 2003/04 financial year

26 May 2004

### Report 1st quarter 2004/05

15 July 2004

### Annual General Meeting 2003/04 financial year

29 July 2004

### Report 2nd quarter 2004/05

15 October 2004

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15 October 2003



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